

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name White Cloud Community Library	County Newaygo
Fiscal Year End 6/30/06	Opinion Date 8/29/06	Date Audit Report Submitted to State 10/17/06	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890	
Street Address 711 W. Main Street		City Fremont	State MI
		Zip 49412	
Authorizing CPA Signature 		Printed Name Jodi DeKulper, CPA	
		License Number 1101021180	

**WHITE CLOUD COMMUNITY LIBRARY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
List of Principal Individuals	ii
Independent Auditor's Report	1
Management's Discussion and Analysis	2 - 4
Combined Government-Wide and Fund Financial Statements:	
Governmental Funds Balance Sheet/Statement of Net Assets	5
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities	6 - 7
Notes to the Financial Statements	8 - 17
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	18

WHITE CLOUD COMMUNITY LIBRARY

Board Members

<u>Appointed Official</u>	<u>Position</u>
Laurel Jones	President
Mike Ross	Vice-President
Chris Tiernan	Secretary
Pat Ebenstein	Treasurer
Georgia Burns	Trustee
Judy Maike	Trustee
Paul DesPres	Trustee
Donna Clark	Trustee

Administration

Nancy Harper	Director
Linda Foondle	Assistant Director



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Library Board
White Cloud Community Library
Newaygo County
White Cloud, MI 49349

Independent Auditor's Report

We have audited the accompanying financial statements of the White Cloud Community Library as of and for the year ended June 30, 2006 as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's board. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the White Cloud Community Library as of June 30, 2006, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the White Cloud Community Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the White Cloud Community Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants
August 29, 2006

Grand Rapids
2025 East Beltline SE
Suite 208
Grand Rapids, MI 49546
Phone (616) 954-3995
Fax (616) 954-3990

Muskegon
4985 South Harvey Street
Muskegon, MI 49444
Phone (231) 798-1040
Fax (231) 798-8409

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Whitehall
116 West Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

Hart
1550 North Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

www.hscompanies.com



The CPA. Never Underestimate The Value.®

WHITE CLOUD COMMUNITY LIBRARY

Management's Discussion and Analysis (MD&A)

Year Ended June 30, 2006

Using this Annual Report

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These *Fund Financial Statements* focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

The second column of the financial statements includes information on the Library's Capital Projects Fund under the modified accrual method. These *Fund Financial Statements* focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.

The Adjustment column of the financial statements represents adjustments necessary to the government-wide financial statements under the full accrual method.

The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below contains key financial information in a condensed format:

	<u>6/30/2006</u>	<u>6/30/2005</u>
Current Assets	\$ 64,780	\$ 146,788
Noncurrent Assets	<u>604,725</u>	<u>586,480</u>
Total Assets	<u>\$ 669,505</u>	<u>\$ 733,268</u>
Long-Term Liabilities	\$ 35,650	\$ 4,253
Other Liabilities	<u>16,239</u>	<u>79,851</u>
Total Liabilities	<u>\$ 51,889</u>	<u>\$ 84,104</u>

Management's Discussion and Analysis (Continued)

Net Assets		
Invested in Capital Assets-Net of Debt	\$ 569,075	\$ 547,480
Unrestricted	48,541	63,410
Total Net Assets	<u>\$ 617,616</u>	<u>\$ 610,890</u>
Revenue		
Property Taxes	\$ 196,733	\$ 191,703
Grants	106,653	51,468
Other	97,200	108,065
Total Revenues	400,586	351,236
Expenses		
Library Services	(393,860)	(349,394)
Loss on Disposal of Capital Assets	-	(184)
Prior Period Adjustment	-	(27,236)
Total Expenses	<u>(393,860)</u>	<u>(376,814)</u>
Change in Net Assets	<u>\$ 6,726</u>	<u>\$ (25,578)</u>

The Library as a Whole

The Library's net assets increased by \$6,726 in 2006 compared to a decrease of \$25,578 in 2005.

The Library's primary source of revenue is property taxes, which represent 49% of total revenues for 2006 compared to 55% for 2005.

Salaries and fringe benefits are a significant expense of the Library, representing 57% of total expenses for 2006 compared to 58% in 2005.

Depreciation expense for the current year represented 24% of the Library's total expenses for 2006 compared to 17% for 2005.

The Library's Funds

Our analysis of the Library's major funds is included on pages 5, 6 and 7 in the first column of the respective statements. The fund columns provide detailed information about the most significant funds, not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as property tax millages. The Library's major funds consist of the General Fund and the Capital Projects Fund.

The fund balance of the General Fund decreased during the year by \$63,392. This large decrease was largely caused by transferring (back to the Capital Projects Fund) the amount necessary to complete the Wilcox property purchase that was in escrow at June 30, 2005.

Management's Discussion and Analysis (Continued)

The fund balance of the Capital Projects Fund at June 30, 2006 is \$255. This is the amount that is left in the checking account. There will not be much activity in this fund until a millage for a new building is passed.

Salaries and fringe benefits were the largest use of resources during the current fiscal year.

Library's Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in property tax revenues and books & materials.

Capital Asset and Debt Administration

At June 30, 2006, the Library had \$1,277,941 invested in land, buildings, furniture and equipment, and books and materials. The Library added \$112,768 in new equipment and collection items during the current year. Of this total, \$83,564 was land and planning expenses for the potential future new library building. The remaining \$29,204 consisted of new collection items including books, various audio/visual materials and additions to the music collection.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to demonstrate the Library's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Librarian of the White Cloud Community Library, P.O. Box 995, White Cloud, MI 49349-0995.

WHITE CLOUD COMMUNITY LIBRARY

Governmental Fund Balance Sheet/Statement of Net Assets June 30, 2006

	General Fund	Capital Projects Fund	Total	Adjustments*	Statement of Activities
ASSETS					
Cash	\$ 60,930	\$ 255	\$ 61,185	\$ -	\$ 61,185
Accounts Receivable	500	-	500	-	500
Due from Other Governments	3,095	-	3,095	-	3,095
Capital Assets, Net of Accumulated Depreciation	-	-	-	604,725	604,725
Total Assets	<u>\$ 64,525</u>	<u>\$ 255</u>	<u>\$ 64,780</u>	604,725	<u>\$ 669,505</u>
LIABILITIES & FUND EQUITY					
Liabilities					
Accounts Payable	\$ 2,921	\$ -	\$ 2,921	-	\$ 2,921
Accrued Interest	-	-	-	524	524
Deferred Revenue	4,073	-	4,073	-	4,073
Accrued Compensated Absences	-	-	-	4,721	4,721
Note Payable - Independent	-	-	-	4,000	4,000
Note Payable - Deur	-	-	-	35,650	35,650
Total Liabilities	6,994	-	6,994	44,895	51,889
Fund Balance/Net Assets					
Fund Balances					
Unreserved, reported in:					
General Fund	57,531	-	57,531	(57,531)	-
Capital Projects Fund	-	255	255	(255)	-
Total Fund Balances	57,531	255	57,786	(57,786)	-
Total Liabilities and Fund Balance	\$ 64,525	\$ 255	\$ 64,780		
Net Assets					
Invested in Capital Assets - Net of Related Debt				569,075	569,075
Unrestricted				48,541	48,541
Total Net Assets				\$ 617,616	\$ 617,616

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD COMMUNITY LIBRARY

Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities June 30, 2006

	General Fund	Capital Projects Fund	Total	Adjustments*	Statement of Activities
REVENUE					
Local Sources					
Property Taxes	\$ 196,733	\$ -	\$ 196,733	\$ -	\$ 196,733
Charges for Services	20,477	-	20,477	-	20,477
Grants	28,594	78,059	106,653	-	106,653
Penal Fines	41,709	-	41,709	-	41,709
Interest	123	17	140	-	140
Video, Copy and Fax Fees	9,245	-	9,245	-	9,245
Donations & Memorials	3,523	-	3,523	-	3,523
Other	14,084	-	14,084	-	14,084
Total Local Sources	314,488	78,076	392,564	-	392,564
State Sources - State Aid	6,166	-	6,166	1,856	8,022
Total Revenue	320,654	78,076	398,730	1,856	400,586
EXPENDITURES					
Salaries and Wages	165,252	-	165,252	-	165,252
Payroll Taxes	13,159	-	13,159	-	13,159
Fringe Benefits	43,796	-	43,796	1,194	44,990
Books and Materials	29,204	-	29,204	(29,204)	-
Utilities and Telephone	10,396	-	10,396	-	10,396
Repairs and Maintenance	16,104	-	16,104	-	16,104
Insurance	3,390	-	3,390	-	3,390
Capital Outlay	1,416	85,646	87,062	(83,564)	3,498
Professional and Contracted Services	22,789	-	22,789	-	22,789

Programs	4,121	-	4,121	-	4,121
Office Supplies	9,296	-	9,296	-	9,296
Postage	1,421	-	1,421	-	1,421
Operating Supplies	904	-	904	-	904
Miscellaneous	3,493	-	3,493	-	3,493
Depreciation	-	-	-	94,523	94,523
Debt Service - Principal	16,000	3,350	19,350	(19,350)	-
- Interest	-	-	-	524	524
Total Expenditures	<u>340,741</u>	<u>88,996</u>	<u>429,737</u>	<u>(35,877)</u>	<u>393,860</u>
Excess Revenue Over (Under) Expenditures	(20,087)	(10,920)	(31,007)	37,733	6,726
Other Financing Resources (Uses)					
Transfers In	-	63,305	63,305	(63,305)	-
Transfers Out	(63,305)	-	(63,305)	63,305	-
Proceeds from Debt	<u>20,000</u>	<u>-</u>	<u>20,000</u>	<u>(20,000)</u>	<u>-</u>
Change in Fund Balance/Net Assets	<u>(63,392)</u>	<u>52,385</u>	<u>(11,007)</u>	<u>17,733</u>	<u>6,726</u>
Fund Balance/Net Assets - July 1, 2005	<u>120,923</u>	<u>(52,130)</u>	<u>68,793</u>	<u>542,097</u>	<u>610,890</u>
Fund Balance/Net Assets - June 30, 2006	<u>\$ 57,531</u>	<u>\$ 255</u>	<u>\$ 57,786</u>	<u>\$ 559,830</u>	<u>\$ 617,616</u>

* Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

WHITE CLOUD COMMUNITY LIBRARY

Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the White Cloud Community Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies:

1. REPORTING ENTITY

The White Cloud Public Library was organized in 1955 to provide library services for the White Cloud area. In 1998, the Library was re-established as a District Library when the City of White Cloud, Everett Township, Merrill Township, and the White Cloud Public Schools filed resolutions under Public Act 24. The Library's Board consists of eight board members appointed by the participating governments. The White Cloud Community Library is a separate reporting entity.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability of fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts-investing in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are record only when payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost of more than \$500. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance that do not add to the value of the asset or materially extend assets lives are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Furniture and Equipment	5 - 20 Years
Library Books and Materials	3 - 10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED ABSENCES

It is the Library's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Library employees are granted vacation and sick leave in varying amounts based on length on service. Upon termination, employees are paid accumulated vacation at full rates and accumulated sick leave at one-half their rate of pay. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for this amount is reported in the general fund.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, the Library did incur material over expenditures in the following funds:

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries and Wages	\$ 160,832	\$ 165,252	\$ (4,420)
Debt Service	-	16,000	(16,000)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budget for this budgetary fund was adopted at the line item level.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Library to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Library is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Library's funds are held at Independent Bank of West Michigan and are carried at cost. At June 30, 2006, they consisted of the following:

	Carrying Value	Market Value
NOW Checking	\$ 57,513	\$ 60,542
NOW Checking - Payroll	3,417	3,417
Business Checking Plus - Building	255	255
Total Deposits	<u>\$ 61,185</u>	<u>\$ 64,214</u>
FDIC Insured	\$ 61,185	\$ 64,214
Uninsured	-	-
Total Deposits	<u>\$ 61,185</u>	<u>\$ 64,214</u>

NOTE D DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Grants	\$ -	\$ 4,073

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not Being Depreciated:				
Land	\$ 61,675	\$ -	\$ -	\$ 61,675
Capital Assets Being Depreciated:				
Library Collection	503,880	29,204	(3,234)	529,850
Buildings & Improvements	382,000	-	-	382,000
Construction in Progress	66,354	83,564	-	149,918
Equipment & Furniture	154,498	-	-	154,498
Total at Historical Cost	1,106,732	112,768	(3,234)	1,216,266
Less Accumulated Depreciation:				
Library Collection	412,446	75,676	(3,234)	484,888
Buildings & Improvements	39,032	7,666	-	46,698
Equipment & Furniture	130,449	11,181	-	141,630
Total Accumulated Depreciation	581,927	94,523	(3,234)	673,216
Net Capital Assets Being Depreciated	524,805	18,245	-	543,050
Total Governmental Activities Capital Capital Assets - Net of Depreciation	<u>\$ 586,480</u>	<u>\$ 18,245</u>	<u>\$ -</u>	<u>\$ 604,725</u>

Depreciation expense for the year ended June 30, 2006 was \$94,523.

NOTE F CHANGES IN SHORT-TERM DEBT

During 2005, the Library entered into a short-term note payable for the purpose of purchasing property for the site of a new library. The note required a \$1,000 down payment and was due within six months. A contingency clause was included that required monthly payments of \$200 at 0% interest if the bond issue for a new library did not pass. As the bond issue was not passed, this debt has become long-term debt.

During the current year, the Library borrowed money from Independent Bank to assist cash flow needs due to public relations expenses as well as other expenses related to continued efforts to pass a bond issue for a new library building. The promissory note was signed November 29, 2005 and was due in full with interest at 7% on November 29, 2006.

Short-term debt outstanding, July 1, 2005	\$ 39,000
Debt added during the year	20,000
Debt retired during the year	(16,000)
Debt converted to long-term	<u>(39,000)</u>
Short-term debt outstanding - June 30, 2006	<u>\$ 4,000</u>

NOTE G CHANGES IN LONG-TERM DEBT

During 2005, the Library entered into a short-term note payable for the purpose of purchasing property for the site of a new library. The note required a \$1,000 down payment and was due within six months. However, as the bond issue did not pass, this debt was converted to long-term debt in the current year. The debt is payable in monthly payments of \$200 with no interest being charged.

Long-term debt outstanding, July 1, 2005	\$ -
Debt converted from short-term	39,000
Debt retired during the year	<u>(3,350)</u>
Long-term debt outstanding - June 30, 2006	<u>\$ 35,650</u>

Amounts required to amortized the debt are as follows:

Fiscal Year	Interest Rate	Outstanding 6/30/2006	Interest if Held to Maturity	Amount of Annual Maturity
6/30/2007	0%	\$ 2,400	\$ -	\$ 2,400
6/30/2008	0%	2,400	-	2,400
6/30/2009	0%	2,400	-	2,400
6/30/2010	0%	2,400	-	2,400
6/30/2011	0%	2,400	-	2,400
Remaining	0%	23,650	-	23,650
Total		<u>\$ 35,650</u>	<u>\$ -</u>	<u>\$ 35,650</u>

NOTE H INTERFUND TRANSFERS

	Transfers In		
	General Fund	Capital Projects Fund	Total
Transfers (Out):			
General Fund	\$ -	\$ 63,305	\$ 63,305
Capital Projects Fund	(63,305)	-	(63,305)
Total	<u>\$ (63,305)</u>	<u>\$ 63,305</u>	<u>\$ -</u>

NOTE I ENDOWMENT FUND

The Fremont Area Community Foundation holds two endowment funds which have been earmarked for the White Cloud Community Library. The values of the endowment funds as of the Foundation's most recent year end's are as follows:

	12/31/2006	12/31/2005
White Cloud Community Library Fund	\$ 31,060	\$ 36,187
Ronald Goldston Fund	7,108	7,733
Total	<u>\$ 38,168</u>	<u>\$ 43,920</u>

NOTE J RETIREMENT PLAN

Description of Plan and Plan Assets - The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report the includes financial statements and required supplementary information for notes to the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, MI 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Library's personnel policy, which does not require employees to contribute to the plan. The Library is required to contribute at an actuarially determined rate; the rate was 16.97 percent as of July 1, 2005.

Annual Pension Cost - During the fiscal year ended June 30, 2006, the Library's contributions totaling \$15,298 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

GASB 25 and GASB 27 Information - The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2005 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

Notes to the Financial Statements (continued)

GASB 25 Information

	As of 12/31/2005
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ -
Terminated employees not yet receiving benefits	15,524
Current Employees	
Accumulated employee contributions including allocated investment income	33,804
Employer Financed	203,581
Total Actuarial Accrued Liability (b)	252,909
Net Assets Available for Benefits at Actuarial Value (Market Value is \$190,793) (a)	195,957
Unfunded (Over funded) Actuarial Accrued Liability	\$ 56,952

GASB 27 Information

Fiscal Year Beginning	July 1, 2007
Annual Required Contribution (ARC)	13,332
Amortized Factor Used	0.053632

Trend Information

Fiscal Period Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2002	\$ 13,655	100%	-
June 30, 2003	11,145	100%	-
June 30, 2004	13,145	100%	-
June 30, 2005	17,761	100%	-
June 30, 2006	15,298	100%	-

Schedule of Funding Progress

Actuarial Valuation 12/31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a % of Covered Payroll ((b-a)/c)
2002	\$ 81,764	\$ 150,678	\$ 68,914	54.30%	\$ 76,312	90.30%
2003	137,743	206,593	68,850	66.70%	74,109	92.99%
2004	161,622	210,304	48,682	76.90%	85,272	57.09%
2005	195,957	252,909	56,952	77.48%	90,281	63.08%

NOTE K DEFERRED COMPENSATION PLAN

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Library employees, permits deferral of a portion of earnings until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Library (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Library's general creditors. Participant rights under the plan are equal to those of general creditors of the Library in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Library that the Library has no liability for losses under the plan but does have the duty of due care that would be required for an ordinary prudent investor.

NOTE L RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE M RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and the statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 57,786
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	604,725
Notes payable are not due and payable in the current period and are not reported in the funds	(39,650)
Compensated absences are included as a liability	(4,721)

Notes to the Financial Statements (continued)

Interest accrued on note payable that is not due and payable in the current period and not reported in the funds	(524)
Net Assets of General Fund - Full Accrual Basis	<u><u>\$ 617,616</u></u>
Net Change in Fund Balances - Modified Accrual Basis	\$ (11,007)
Amounts reported in the statement of activities are different because:	
Capital outlays are reported as expenditures in the statement of revenues, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Library Books and Materials	29,204
Capital Outlay	83,564
Depreciation	(94,523)
Proceeds from debt reported as revenue in the fund statements, not in the financial statements	(20,000)
Revenues that are not considered available for current expenditures are not reported on the statement of activities	1,856
Note payable principal payments are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	19,350
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(1,194)
Interest expense accrued on note payable that is not due and payable in the current period and not recorded in the fund statements	(524)
Change in Net Assets of General Fund - Full Accrual Basis	<u><u>\$ 6,726</u></u>

WHITE CLOUD COMMUNITY LIBRARY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended June 30, 2006

REVENUE	Budgeted Amounts		Actual	Variance to Final Budget
	Original	Final		
Local Sources				
Property Taxes	\$ 200,000	\$ 194,000	\$ 196,733	\$ 2,733
Charges for Services	19,000	18,500	20,477	1,977
Grants	35,300	31,355	28,594	(2,761)
Penal Fines	40,000	41,700	41,709	9
Interest	750	550	123	(427)
Video, Copy and Fax Fees	9,900	9,800	9,245	(555)
Donations & Memorials	5,000	3,200	3,523	323
Other	17,500	19,500	14,084	(5,416)
Total Local Sources	327,450	318,605	314,488	(4,117)
State Sources - State Aid	6,607	6,785	6,166	(619)
Total Revenue	334,057	325,390	320,654	(4,736)
EXPENDITURES				
Salaries and Wages	159,958	160,832	165,252	(4,420)
Payroll Taxes	12,765	12,900	13,159	(259)
Fringe Benefits	53,000	49,400	43,796	5,604
Books and Materials	29,400	36,950	29,204	7,746
Utilities and Telephone	9,150	9,775	10,396	(621)
Repairs and Maintenance	18,000	13,850	16,104	(2,254)
Insurance	3,300	3,526	3,390	136
Capital Outlay	1,000	2,000	1,416	584
Professional and Contracted Services	21,200	22,400	22,789	(389)
Programs	1,400	1,950	4,121	(2,171)
Office Supplies	7,200	7,200	9,296	(2,096)
Postage	1,100	1,400	1,421	(21)
Operating Supplies	1,200	1,000	904	96
Miscellaneous	3,300	2,150	3,493	(1,343)
Debt Service - Principal	-	-	16,000	(16,000)
Total Expenditures	\$ 321,973	\$ 325,333	340,741	\$ (15,408)
Excess Revenue Over (Under) Expenditures			(20,087)	
Other Financing Resources (Uses)				
Transfers Out			(63,305)	
Proceeds from Debt			20,000	
Change in Fund Balance			(63,392)	
Fund Balance - July 1, 2005			120,923	
Fund Balance - June 30, 2006			\$ 57,531	



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



September 18, 2006

Library Board
White Cloud Community Library
White Cloud, MI 49349

Dear Board Members:

We have recently completed an audit of the financial statements of the White Cloud Community Library for the year ended June 30, 2006. In connection with our audit, we reviewed the Board's accounting procedures. In that regard we offer the following comments and recommendations.

PRIOR YEAR RECOMMENDATIONS
BUDGETING

During our prior audit, we noted that the Library was not properly amending its budget for expenditures which were not expected at the time of adopting the original budget. While the Board did amend the budget three different times throughout the year, these amendments did not eliminate all unfavorable variances. We recommend that the Board keep an even closer eye on the amounts they are expending and amend the budget where necessary in order to avoid over-expend the budget.

CAPITALIZATION POLICY

We also previously noted that the Board needed to adopt a capitalization policy that identifies the minimum dollar value of fixed assets which should be accounted for and inventoried for financial statement reporting purposes. The Board has undergone discussions to this end and is nearly ready to adopt such a policy.

CURRENT YEAR RECOMMENDATIONS
INTERFUND TRANSFERS

While the Library has a separate checking account for both the General Fund and Capital Projects Fund, the General Fund account is the one primarily used. Often, when a building-related expense needs to be paid, it is paid from the General Fund checking and the bookkeeper records an interfund transfer to balance the funds. We suggest that the Library make an actual cash transfer to the Capital Projects Fund checking from the General Fund checking and then pay the expense out of the Capital Projects Fund checkbook.

Grand Rapids
2025 East Beltline SE
Suite 208
Grand Rapids, MI 49546
Phone (616) 954-3995
Fax (616) 954-3990

Muskegon
4985 South Harvey Street
Muskegon, MI 49444
Phone (231) 798-1040
Fax (231) 798-8409

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Whitehall
116 West Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

Hart
1550 North Industrial Park Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

www.hscompanies.com



The CPA. Never Underestimate The Value.®

This report is intended solely for the information and use of the White Cloud Community Library's management and the board members. This restriction is not intended to limit distribution of this report, which is a matter of public record.

We appreciate the courtesy extended to us during our audit. We are available year round to assist in the implementation of any of the recommendations set forth in this letter or to answer any question regarding the audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jodi DeKuiper, CPA".

Jodi DeKuiper, CPA
Hendon & Slate, P.C.